

Financial Statements of

H&R FINANCE TRUST

Year ended December 31, 2009



KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the balance sheet of H&R Finance Trust as at December 31, 2009 and the statements of earnings and comprehensive income, unitholders' equity and cash flows for the year then ended. These financial statements are the responsibility of Finance Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Finance Trust as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 25, 2010

H&R FINANCE TRUST

Balance Sheet
(In thousands of dollars)

December 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 69	\$ 201
Notes receivable (note 3)	134,217	160,056
	<u>\$ 134,286</u>	<u>\$ 160,257</u>

Liabilities and Unitholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 184	\$ 198
Option derivatives (note 3)	12,091	10,890
Unitholders' equity (notes 4 and 8)	122,011	149,169
Commitments (note 8)		
Economic dependence (note 10)		
Subsequent events (note 8(d) and (e))		
	<u>\$ 134,286</u>	<u>\$ 160,257</u>

See accompanying notes to financial statements.

Approved by the Trustees:

"Neil Sigler" _____ Trustee

"Thomas J. Hofstedter" _____ Trustee

H&R FINANCE TRUST

Statement of Earnings and Comprehensive Income
(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

	2009	2008
Revenue:		
Interest income (note 5)	\$ 15,046	\$ 4,294
Trust expenses	(397)	(284)
	14,649	4,010
Net gain (loss) on foreign exchange	(20,509)	20,251
Loss on option derivatives (note 3)	(2,951)	(3,140)
Net earnings (loss) and comprehensive income (loss)	\$ (8,811)	\$ 21,121
Basic and diluted net earnings (loss) per unit	\$ (0.06)	\$ 0.14
Weighted average number of units outstanding	147,483,945	146,502,378

Statement of Unitholders' Equity
(In thousands of dollars)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

	Value of units	Accumulated net earnings	Accumulated distributions	Total
Proceeds from issuance of units (note 4)	\$ 133,528	\$ -	\$ -	\$ 133,528
Net earnings	-	21,121	-	21,121
Distributions to unitholders	-	-	(5,480)	(5,480)
Unitholders' equity, December 31, 2008	133,528	21,121	(5,480)	149,169
Proceeds from issuance of units (note 4)	2,055	-	-	2,055
Net loss	-	(8,811)	-	(8,811)
Distributions to unitholders	-	-	(15,586)	(15,586)
Redemption of units	(4,816)	-	-	(4,816)
Unitholders' equity, December 31, 2009	\$ 130,767	\$ 12,310	\$ (21,066)	\$ 122,011

See accompanying notes to financial statements.

H&R FINANCE TRUST

Statement of Cash Flows
(In thousands of dollars)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ (8,811)	\$ 21,121
Items not involving cash:		
Unrealized foreign exchange (gain) loss	20,487	(20,000)
Accounts payable and accrued liabilities	(14)	198
Loss on option derivatives (note 3)	2,951	3,140
Other (note 5)	841	194
	<u>15,454</u>	<u>4,653</u>
Financing:		
Proceeds from issuance of units	2,055	133,528
Distributions to unitholders	(15,586)	(5,480)
	<u>(13,531)</u>	<u>128,048</u>
Investments:		
Subscription for notes receivable	(2,055)	(132,500)
Increase (decrease) in cash	(132)	201
Cash, beginning of period	201	-
Cash, end of period	<u>\$ 69</u>	<u>\$ 201</u>
Supplementary disclosure of non-cash financing and investing activities:		
Redemption of units through delivery of notes receivable	\$ (4,816)	\$ -

See accompanying notes to financial statements.

H&R FINANCE TRUST

Notes to Financial Statements

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

H&R Finance Trust ("Finance Trust") is an unincorporated investment trust with each unitholder participating pro rata in distributions of income and, in the event of termination of Finance Trust, participating pro rata in the net assets remaining after satisfaction of all liabilities.

On October 1, 2008, H&R Real Estate Investment Trust ("H&R REIT") completed an internal reorganization pursuant to a Plan of Arrangement (the "Plan of Arrangement") as described in H&R REIT's information circular dated August 20, 2008. The Plan of Arrangement resulted in, among other things, the creation on October 1, 2008 of Finance Trust. Each unitholder received, for each H&R REIT unit held, a unit of Finance Trust. Each issued and outstanding Finance Trust unit is stapled to a unit of H&R REIT on a one-for-one basis so as to form stapled units ("Stapled Units"), and such Stapled Units are listed and posted for trading on the Toronto Stock Exchange ("TSX").

On November 30, 2009, H&R REIT and Finance Trust completed a reorganization (the "2009 Reorganization") as part of the steps required to enable H&R REIT to qualify for the REIT exemption under certain provisions in the Income Tax Act (Canada) applicable to publicly traded trusts and partnerships. The 2009 Reorganization involved, among other things, a redemption of 5,437,565 Stapled Units of H&R REIT and Finance Trust held by H&R Portfolio Limited Partnership (wholly owned by H&R REIT). In accordance with the respective Declarations of Trust for H&R REIT and Finance Trust and upon the exercise of discretion by the trustees of H&R REIT, as provided for in the Declaration of Trust of H&R REIT, the redemption price for H&R REIT units was paid in cash, while Finance Trust delivered notes receivable from H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of H&R REIT in payment of the redemption price for the Finance Trust units redeemed.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Revenue recognition:

Interest income earned from the notes receivable from U.S. Holdco is recorded on an accrual basis using the effective interest method.

(b) Impairment of notes receivable:

Notes receivable are classified as impaired when, in the opinion of management, there is a reasonable doubt as to the timely collection of the full amount of principal and interest. The carrying amounts of any notes receivable classified as impaired are reduced to their estimated realizable amounts.

H&R FINANCE TRUST

Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

1. Significant accounting policies (continued):

(c) Foreign currency translation:

U.S. dollar denominated assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the balance sheet date and revenue and expenses are translated at the actual exchange rates incurred, resulting in any gains/losses recorded in earnings.

(d) Income taxes:

Finance Trust qualifies as a mutual fund trust that is not a specified investment flow-through trust under the Income Tax Act (Canada). In accordance with the terms of the Declaration of Trust, all of the net income for tax purposes will be paid or payable to unitholders in the taxation year so that no income tax is payable by Finance Trust. For financial statement reporting purposes, the tax deductibility of Finance Trust's distributions is treated as an exemption from taxation as Finance Trust distributed and is committed to continue distributing all of its taxable income to its unitholders.

(e) Financial instruments:

Finance Trust has designated its cash and option derivatives as held-for-trading, which are measured at fair value. Notes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Finance Trust had neither available-for-sale nor held-to-maturity instruments as at or during the year ended December 31, 2009 or for the period from inception on October 1, 2008 to December 31, 2008.

(f) Comprehensive income:

Comprehensive income is defined as the change in unitholders' equity during a period from transactions and other events from non-owner sources. Certain gains and losses that would otherwise be recorded as part of net earnings are presented in other comprehensive income until it is considered appropriate to recognize into net earnings. Finance Trust had no other comprehensive income during the year ended December 31, 2009 or for the period from inception on October 1, 2008 to December 31, 2008.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Estimates are used when accounting for items such as embedded prepayment and extension options and notes receivable. Actual results could differ from those estimates.

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Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

2. Changes in accounting policies:

Effective January 1, 2009, Finance Trust adopted the new recommendation of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, on a retroactive basis by adjusting the prior year. This new section replaces Section 3062, Goodwill and Other Intangible Assets, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new section has no impact on the financial statements.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009. Finance Trust adopted this recommendation in its fair value determinations effective January 1, 2009. The adoption of this guideline did not have any material effect on Finance Trust's results, financial position or cash flows.

Effective January 1, 2009, Finance Trust prospectively adopted the CICA amendments to Section 3855, Financial Instruments - Recognition and Measurement. Amendments to this section require an assessment to determine whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on reclassification of a financial asset out of held-for-trading category. In addition, the amendment prohibits the reclassification of a financial asset out of the held-for-trading category when the fair value of the embedded derivative in a combined contract cannot be reasonably measured. The adoption of the amendments to this standard did not have an impact on Finance Trust's financial statements.

Effective January 1, 2009, Finance Trust adopted the CICA amendments to Section 3855, Financial Instruments - Recognition and Measurement, in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and, provided that certain conditions have been met, requires or permits reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. The amendments also change the impairment model for held-to-maturity investments to the incurred credit loss model. The adoption of the amendments to this standard did not have an impact on Finance Trust's financial statements.

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for Finance Trust on December 31, 2009. Additional fair value disclosures are outlined in note 9.

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Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

3. Notes receivable:

Finance Trust has notes receivable ("U.S. Holdco Notes") from U.S. Holdco. The U.S. Holdco Notes bear interest payable monthly at a floating rate adjusted monthly equal to the then-prevailing 10-year U.S. treasury note rate plus 8.00% per annum. The weighted average interest rate for the year ended December 31, 2009 was 11.18%. For the period from October 1, 2008 to December 31, 2008, the weighted average interest rate was 11.53%. The interest rate at December 31, 2009 was 11.85% (2008 - 10.25%). The U.S. Holdco Notes are due on October 1, 2018. U.S. Holdco has a one-time right to extend the term of the notes for a further 10 years at the then-prevailing 10-year U.S. treasury note rate plus 8.00% per annum provided that U.S. Holdco is not in default and has met certain financial ratios.

Except in limited circumstances, U.S. Holdco does not have the right to repay the U.S. Holdco Notes prior to October 1, 2011. Following October 1, 2011, subject to certain conditions, U.S. Holdco has the right to repay either in whole or in part the notes outstanding before the maturity date. There is a prepayment penalty for amounts prepaid over a certain threshold between October 1, 2011 and October 1, 2013.

To permit Finance Trust to fund a redemption of Finance Trust units tendered for redemption from time to time (note 4), Finance Trust has the right to require U.S. Holdco to repay for cash all or any part of the U.S. Holdco Notes for an amount equal to the redemption amount, provided that in any one calendar month, U.S. Holdco will not be required to repay notes having an aggregate purchase price in excess of \$50 (subject to adjustment in certain circumstances or waiver by the trustees).

The U.S. Holdco Notes are subordinate to any senior indebtedness owed by U.S. Holdco. If there is a default or an event of default pursuant to the terms of senior indebtedness of U.S. Holdco, subject to certain additional conditions, U.S. Holdco shall not be required to make any payment on the U.S. Holdco Notes until such time as such senior indebtedness has been repaid in full, or until such default or event of default shall have been cured or waived or shall have ceased to exist.

Finance Trust has fair valued the embedded prepayment and extension option liabilities using available market information and appropriate valuation techniques. The fair value of such options as at December 31, 2008 including the impact of foreign exchange was \$10,890 which increased to \$12,091 as at December 31, 2009. The change in fair value of \$2,951 (2008 - \$3,140) has been recorded as a loss in net earnings. There is a \$1,750 foreign exchange impact for the year ended December 31, 2009 which reduces the option derivative value in such periods and is recorded in loss on foreign exchange in the statement of earnings and comprehensive income.

As a result of bifurcating these options from the notes receivable, in the amount of \$7,750, a basis adjustment to the notes receivable has been made which is amortized over the term of the notes receivable using the effective interest rate method, which is recorded as a reduction of interest income. The amount of this amortization was \$841 for the year ended December 31, 2009. For the period from October 1, 2008 to December 31, 2008, the amount of this amortization was \$194.

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Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

4. Unitholders' equity:

Finance Trust is an unincorporated investment trust. The beneficial interests in Finance Trust are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders and carries the right to participate pro rata in any distributions.

The units of Finance Trust are stapled with the units of H&R REIT. These Stapled Units are listed and posted for trading on the TSX. Finance Trust has entered into a support agreement with H&R REIT to coordinate the issuance of Stapled Units under various arrangements (note 8).

The units are freely transferable and, other than as prescribed herein, the trustees shall not impose any restriction on the transfer of units. Provided that an event of uncoupling ("Event of Uncoupling") has not occurred: (a) each unit may be transferred only together with a unit of H&R REIT; (b) no unit may be issued by Finance Trust to any person unless: (i) a unit of H&R REIT is simultaneously issued to such person, or (ii) Finance Trust has arranged that units will be consolidated (subject to any applicable regulatory approval) immediately after such issuance, such that each holder of a Finance Trust unit will hold an equal number of Finance Trust units and units of H&R REIT immediately following such consolidation; and (c) a unitholder may require Finance Trust to redeem any particular number of units only if it also requires, at the same time, and in accordance with the provisions of the H&R REIT Declaration of Trust, H&R REIT to redeem that same number of units of H&R REIT.

An Event of Uncoupling shall occur only: (a) in the event that unitholders of H&R REIT vote in favour of the uncoupling of units of Finance Trust and units of H&R REIT such that the two securities will trade separately; or (b) at the sole discretion of the trustees, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of H&R REIT or U.S. Holdco or the taking of corporate action by H&R REIT or U.S. Holdco in furtherance of any such action or the admitting in writing by H&R REIT or U.S. Holdco of its inability to pay its debts generally as they become due. The trustees shall use all reasonable efforts to obtain and maintain a listing for the units of Finance Trust and, unless an Event of Uncoupling has occurred, the Stapled Units, on one or more stock exchanges in Canada.

The unitholders have the right to require Finance Trust to redeem their units on demand. Provided that no Event of Uncoupling has occurred, unitholders who tender their Finance Trust units for redemption will also be required to tender for redemption corresponding units of H&R REIT in accordance with the provisions of the H&R REIT Declaration of Trust. Upon the tender of their Finance Trust units for redemption by Finance Trust, all of the unitholders' rights to and under such units are surrendered and the unitholder is entitled to receive, except as provided below, a price per unit payable in cash equal to the Canadian dollar equivalent of the outstanding principal amount of the U.S. Holdco Notes as of the redemption date, divided by the total number of units issued and outstanding immediately prior to the redemption date. In certain circumstances, including where such payment would cause Finance Trust's monthly cash redemption obligations to exceed \$50 (subject to adjustment in certain circumstances or waiver by the trustees) the redemption price per unit to which a redeeming unitholder is entitled shall be the fair market value of the units being redeemed, as determined by the trustees, which shall be payable by way of delivery of U.S. Holdco Notes.

H&R FINANCE TRUST

Notes to Financial Statements (continued)
(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

4. Unitholders' equity (continued):

The following number of units are issued and outstanding:

	Number of units	Amount
Issued under the Plan of Arrangement on October 1, 2008	146,054,669	\$ 132,500
Issued as a result of Finance Trust complying with the terms of the Support Agreement with H&R REIT (note 8)	978,182	1,028
As at, December 31, 2008	147,032,851	133,528
Issued as a result of Finance Trust complying with the terms of the Support Agreement with H&R REIT (note 8)	2,229,976	2,055
Units redeemed in the year	(5,437,565)	(4,816)
As at, December 31, 2009	143,825,262	\$ 130,767

Distributions:

Pursuant to the Declaration of Trust, unitholders of Finance Trust are entitled to receive all of the Distributable Cash of Finance Trust, as defined in the Declaration of Trust. Distributable Cash means, subject to certain exceptions, all amounts received by Finance Trust less certain costs, expenses or other amounts payable by Finance Trust, and less any amounts which, in the opinion of the trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures that have been or will be incurred in the activities and operations of Finance Trust and to provide for payment of any tax liability of Finance Trust. Finance Trust paid per unit distributions of \$0.11 for the year ended December 31, 2009. For the period from inception on October 1, 2008 to December 31, 2008, total distributions paid were \$0.04 per unit.

5. Interest income, net:

	2009	2008
Interest from notes receivable and cash	\$ 15,887	\$ 4,488
Amortization of notes receivable accounted for under the effective interest rate method	(841)	(194)
	\$ 15,046	\$ 4,294

H&R FINANCE TRUST

Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

6. Capital risk management:

Finance Trust's primary objective when managing capital is to provide unitholders with a cash distribution from the interest income it earns on its notes receivable and cash. Finance Trust manages its capital by adhering to the investment restrictions outlined in its Declaration of Trust.

Under its Declaration of Trust, the assets of Finance Trust may be invested only in:

- (a) U.S. Holdco Notes; and
- (b) temporary investments in cash, term deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities or money market instruments (including bankers' acceptances) of, or guaranteed by a Schedule 1 Canadian bank ("Investments"), but only if each of the following conditions is satisfied: (a) if the Investments have a maturity date, such Investments are held until maturity; (b) the Investments are required to fund expenses of Finance Trust, a redemption of units or distributions to unitholders, in each case before the next distribution date; and (c) the purpose of holding the Investments is to prevent funds from being non-productive, and not to take advantage of market fluctuations.

With respect to unitholders' equity, the level of capital changes with the recognition of income, payment of distributions or the issuance of additional units if required.

7. Risk management:

- (a) Credit risk:

Finance Trust is exposed to credit risk from the possibility that U.S. Holdco may default on its financial obligations. This is the most significant measurable risk faced by Finance Trust. This risk is mitigated by the following terms of the U.S. Holdco Notes:

- (i) The terms of the U.S. Holdco Notes provide that, subject to the approval of the holders of 66-2/3% of the principal amount of U.S. Holdco Notes, U.S. Holdco will not: (a) pay any amounts or transfer any other value to its unitholders (H&R REIT) if an event of default or pending event of default, each as defined for purposes of the U.S. Holdco Notes, has occurred and is continuing or would occur as a result of such payment, and (b) enter into any material transaction with any affiliate, as defined for purposes of the U.S. Holdco Notes, except in the ordinary course of business and on arm's-length terms, provided that this covenant does not affect transactions with wholly owned subsidiaries of U.S. Holdco or equity contributions by U.S. Holdco, other than certain equity contributions made on a non-pro rata basis.

H&R FINANCE TRUST

Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

7. Risk management (continued):

- (ii) U.S. Holdco also covenants that it will not pledge material property or assets in favour of any other person, or permit or cause any lien upon a material portion of its property or assets, although this covenant does not apply to actions taken by U.S. Holdco's subsidiaries.
- (iii) If U.S. Holdco sells property or assets with a net book value greater than 5% of the total net book value of all income properties of U.S. Holdco, then it will have to determine whether its interest coverage ratio (as determined for such purpose) will be less than 1.3:1.0. If its interest coverage ratio is determined to be less than 1.3:1.0, U.S. Holdco must use all or a portion of the proceeds of such sale to redeem U.S. Holdco Notes or redeploy the proceeds in a manner that such ratio will exceed 1.3:1.0.

(b) Liquidity risk:

Management's strategy to managing liquidity risk is to ensure, to the extent possible, that Finance Trust will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Finance Trust does not have significant contractual liabilities. The interest earned on the U.S. Holdco Notes is sufficient to meet its current level of liabilities.

Finance Trust has agreed to an interest rate on the U.S. Holdco Notes equal to the 10-year U.S. treasury note rate plus 8.00% per annum, payable monthly, as outlined in the terms of the U.S. Holdco Notes, which allows for a predictable annual cash flow of at least 8.00% of the principal amount of U.S. Holdco Notes.

The unitholders of Finance Trust are entitled to redeem their units for cash, but this right is limited as described in note 4.

(c) Currency risk:

Finance Trust receives its interest income in U.S. dollars and Finance Trust's most significant asset is denominated in U.S. dollars and, therefore, Finance Trust is subject to foreign currency fluctuations that may impact its financial position and results.

A \$0.10 weakening of the U.S. dollar against the average Canadian dollar exchange rate of \$1.14 for the year ended December 31, 2009 and \$1.21 for the period from inception on October 1, 2008 to December 31, 2008 would have decreased net earnings by approximately \$1,227 for the year ended December 31, 2009 and \$350 for the period from inception on October 1, 2008 to December 31, 2008 (excluding the effect of translating the notes receivable balance and the loss on derivative options). This analysis assumes that all of the variables, in particular interest rates, remain constant (a \$0.10 strengthening of the U.S. dollar against the Canadian dollar at December 31, 2009 and for the period from inception on October 1, 2008 to December 31, 2008 would have had the equal but opposite effect).

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Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

7. Risk management (continued):

(d) Interest rate risk:

Finance Trust is exposed to interest rate risk on its notes receivable due to the volatility of variable interest rates. The interest rate on the U.S. Holdco Notes is adjusted monthly and is equal to the then-prevailing 10-year U.S. treasury note rate plus 8.00% per annum. The floor interest rate of 8.00% mitigates the effect of a drop in short-term market interest rates while the floating component linked to 10-year U.S. treasury note allows for increased interest earnings when short-term market interest rates increase. An increase in the notes receivable interest rate by 100 basis points would have increased net earnings by \$1,426 for the year ended December 31, 2009 and \$389 for the period from inception on October 1, 2008 to December 31, 2008 (a decrease of 100 basis points would have had the equal but opposite effect). This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

8. Commitments under the Support Agreement between Finance Trust and H&R REIT:

Pursuant to the provisions of the Declarations of Trust for Finance Trust and H&R REIT, at all times each H&R REIT unit must be "stapled" to a Finance Trust unit (and each Finance Trust unit must be "stapled" to an H&R REIT unit) unless there is an Event of Uncoupling. As part of the Plan of Arrangement, H&R REIT and Finance Trust entered into a support agreement (the "Support Agreement") which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit H&R REIT to perform its obligations pursuant to H&R REIT's Declaration of Trust, Unit Option Plan, Distribution Reinvestment Plan and Unit Purchase Plan and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit H&R REIT to perform its obligations arising under any security issued by H&R REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable H&R REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of H&R REIT units and to otherwise ensure at all times that each holder of a particular number of H&R REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, executing prospectuses or other offering documents.

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Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

8. Commitments under the Support Agreement between Finance Trust and H&R REIT (continued):

In the event that H&R REIT issues additional H&R REIT units, pursuant to the Support Agreement, H&R REIT and Finance Trust will coordinate so as to ensure that each subscriber receives both H&R REIT units and Finance Trust units, which shall trade together as Stapled Units. Prior to such event, H&R REIT shall provide notice to Finance Trust to cause Finance Trust to issue and deliver the requisite number of Finance Trust units to be received by and issued to, or to the order of, each subscriber as H&R REIT directs. In consideration of the issuance and delivery of each such Finance Trust unit, H&R REIT (on behalf of the purchaser) or the purchaser, as the case may be, shall pay (or arrange for the payment of) a purchase price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of each such Finance Trust unit at the time of such issuance. The remainder of the subscription price for Stapled Units shall be allocated to the H&R REIT units to be issued by H&R REIT. The proceeds received by Finance Trust from any such issuance shall be invested in additional notes of the same series as the U.S. Holdco Notes or distributed to unitholders of Finance Trust.

Finance Trust has contingent obligations that exist as of December 31, 2009 and 2008 to issue units under the Support Agreement which are as follows:

(a) 2013 Convertible Debentures:

In June 2008, H&R REIT completed a public offering of \$115,000 6.65% convertible unsecured subordinated debentures due June 30, 2013 (the "2013 Convertible Debentures"). Each 2013 Convertible Debenture is convertible into freely tradeable Stapled Units at the holder's option at: (i) any time prior to the maturity date, and (ii) the business day immediately preceding the date specified by H&R REIT for redemption of the 2013 Convertible Debentures, at a conversion price of \$23.11 per Stapled Unit. Upon any conversion of a 2013 Convertible Debenture, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance.

(b) 2014 Convertible Debentures:

In July 2009, H&R REIT completed a public offering of \$150,000 6.75% Series B convertible unsecured subordinated debentures due December 31, 2014 (the "2014 Convertible Debentures"). Each 2014 Convertible Debenture is convertible into freely tradeable Stapled Units at the holder's option at: (i) any time prior to the maturity date, and (ii) the business day immediately preceding the date specified by H&R REIT for redemption of the 2014 Convertible Debentures, at a conversion price of \$14.00 per Stapled Unit. Upon any conversion of a 2014 Convertible Debenture, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance.

H&R FINANCE TRUST

Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

8. Commitments under the Support Agreement between Finance Trust and H&R REIT (continued):

(c) 2017 Convertible Debentures:

In December 2009, H&R REIT completed a public offering of \$175,000 6.00% Series C convertible unsecured subordinated debentures due June 30, 2017 (the "2017 Convertible Debentures"). Each 2017 Convertible Debenture is convertible into freely tradeable Stapled Units at the holder's option at: (i) any time prior to the maturity date, and (ii) the business day immediately preceding the date specified by H&R REIT for redemption of the 2017 Convertible Debentures, at a conversion price of \$19.00 per Stapled Unit. Upon any conversion of a 2017 Convertible Debenture, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance.

(d) Unit option plan:

There are 2,086,434 options outstanding under H&R REIT's Unit Option Plan as at December 31, 2009 which are exercisable into Stapled Units. At the time that the option holder exercises its option, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance.

Subsequent to December 31, 2009, an additional 600,000 options were issued under H&R REIT's Unit Option Plan.

(e) Short-form base shelf prospectus:

On May 11, 2009, H&R REIT and Finance Trust issued a base shelf prospectus allowing H&R REIT and Finance Trust to offer and issue the following securities: (i) unsecured debt securities; (ii) subscription receipts exchangeable for Stapled Units and/or other securities of H&R REIT and Finance Trust; (iii) warrants exercisable to acquire Stapled Units and/or other securities of H&R REIT and Finance Trust; and (iv) securities comprised of more than one of Stapled Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to \$500,000 in aggregate (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that the short-form base shelf prospectus (including any amendments) remains valid. On July 17, 2009, H&R REIT and Finance Trust filed Amendment No. 1 to the base shelf prospectus dated May 11, 2009, to provide that the securities that may be offered and issued thereunder include senior unsecured debt securities of the REIT. On January 18, 2010, H&R REIT and Finance Trust filed Amendment No. 2 to the base shelf prospectus dated May 11, 2009 and amended July 17, 2009, to increase the aggregate offer price of securities that may be offered under the base shelf prospectus from \$500,000 to \$1,000,000 (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be). Upon any issuance of Stapled Units pursuant to the short-form base shelf prospectus, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value of the Finance Trust units (as determined by Finance Trust in consultation with H&R REIT) at the time of such issuance.

H&R FINANCE TRUST

Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

8. Commitments under the Support Agreement between Finance Trust and H&R REIT (continued):

(f) Equity Distribution Agreement:

On June 5, 2009, H&R REIT and Finance Trust entered into an equity distribution agreement with Canaccord Capital Corporation who will act as agent for the issuance and sale of Stapled Units, over an approximate two-year period, by way of "at-the-market distributions" over the TSX. The timing of any sale over such approximate two-year period, and the number of Stapled Units actually sold during such period, are at the discretion of H&R REIT and Finance Trust. Pursuant to applicable securities laws, the market value of Stapled Units sold pursuant to the equity distribution agreement must not exceed 10% of the aggregate market value of outstanding Stapled Units, as determined as at the last trading day of the month before the month in which the first trade under the equity distribution agreement is made. The Stapled Units will be distributed at market prices prevailing at the time of sale of such Stapled Units (if any) and, as a result, prices may vary between purchasers and during the period of distribution. At the time units are issued, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance. Finance Trust will use its portion of the net proceeds of any given distribution of Stapled Units for the limited purposes set out in its Declaration of Trust. As of December 31, 2009, no trades have yet been made pursuant to the equity distribution agreement.

9. Fair value of financial assets and liabilities:

The fair values of Finance Trust's cash and accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair value of the notes receivable has been determined by management to be \$134,217 (2008 - \$160,056) using internal models where the inputs are not based on observable market data.

The fair value of the option derivative is based on a Level 3 valuation as the inputs to the fair value determination is not based on observable market data.

The following table reconciles Finance Trust's Level 3 fair value measurement from January 1, 2009 to December 31, 2009:

Balance, beginning of year	\$	10,890
Loss recorded in net earnings		2,951
Unrealized loss on foreign exchange		(1,750)
Balance, end of year	\$	12,091

H&R FINANCE TRUST

Notes to Financial Statements (continued)

(In thousands of dollars, except unit and per unit amounts)

Year ended December 31, 2009, with comparative figures
for the period from inception on October 1, 2008 to December 31, 2008

9. Fair value of financial assets and liabilities (continued):

Finance Trust applied judgment in determining unobservable inputs used to calculate the fair value of the option derivative. The most significant unobservable input used in calculating the fair value is the discount rate applied in the cash flow model. The discount rate in the cash flow model is derived by evaluating comparable yields on publicly issued U.S. retail real estate investment trust debentures, which are thinly traded, adjusted for the credit risk of U.S. Holdco. A 10% change in assumption used for the discount rate would result in an increase or decrease in fair value by approximately \$1,200.

10. Economic dependence:

The notes receivable are owned by, and virtually all of the interest income is received from, U.S. Holdco. The loss of interest income or the inability of U.S. Holdco to repay the notes receivable could have a material adverse effect on Finance Trust's results of operations and financial position.

H&R FINANCE TRUST

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

For the Year Ended December 31, 2009

Dated: February 25, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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SECTION I

FORWARD-LOOKING DISCLAIMER

Management's discussion and analysis ("MD&A") of the financial position and the results of operations of H&R Finance Trust ("Finance Trust") for the year ended December 31, 2009 should be read in conjunction with Finance Trust's financial statements and the notes thereto for the year ended December 31, 2009 and for the period from inception on October 1, 2008 to December 31, 2008. Trends which might appear should not be taken as indicative of future operations or results.

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings "Results of Operations", "Financial Condition", "Liquidity and Capital Resources" and "Outlook" relating to Finance Trust's objectives, strategies to achieve those objectives, Finance Trust's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect Finance Trust's current beliefs and are based on information currently available to management.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on Finance Trust's estimates and assumptions that are subject to risks and uncertainties, including those described below under "Risks and Uncertainties" and those discussed in the Finance Trust's materials filed with Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of Finance Trust to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, among other things, risks related to: creditworthiness of H&R REIT (U.S.) Holdings Inc.; unit prices; availability of cash for distributions; interest rate risk; tax risk; tax consequences to U.S. holders; dilution; currency risk; liquidity risk; redemption risk and unitholder liability. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is stable, interest rates are relatively stable, and H&R REIT (U.S.) Holdings Inc. is financially viable and creditworthy. Finance Trust cautions that this list of factors is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what Finance Trust believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

In addition, as the assets of Finance Trust must be primarily invested in U.S. Holdco Notes (as defined below) and each unit of Finance Trust is "stapled" to a unit of H&R Real Estate Investment Trust ("H&R REIT") so as to form stapled units which are then listed and posted for trading on the Toronto Stock Exchange, readers are urged to examine H&R REIT's financial statements and notes thereto, and the combined financial statements of H&R REIT and Finance Trust and the notes thereto, for the year ended December 31, 2009 and for the period from inception on October 1, 2008 to December 31, 2008, and the MD&A relating thereto. Furthermore, readers are also urged to examine H&R REIT's materials filed with Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of Finance Trust to differ materially from the forward-looking statements contained in this MD&A. However, neither Finance Trust, nor any of its trustees or officers, assumes any responsibility for the accuracy or completeness of the information contained in H&R REIT's materials filed with Canadian securities regulatory authorities or for any failure of H&R REIT or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information.

All forward-looking statements in this MD&A are qualified by these cautionary statements. These forward-looking statements are made as of February 25, 2010 and Finance Trust, except as required by applicable law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances. All information for the three months ended December 31, 2009 is unaudited and has not been reviewed by an auditor.

NON-GAAP FINANCIAL MEASURES

Distributable cash ("DC") and Adjusted Funds from Operations ("AFFO") are supplemental financial measures used by management to track Finance Trust's financial performance. DC and AFFO are not recognized under Canadian generally accepted accounting principles ("GAAP") and therefore do not have a standardized meaning prescribed by GAAP. These non-GAAP financial measures should not be construed as an alternative to comparable financial measures calculated in accordance with GAAP. Furthermore, Finance Trust's method of calculating DC and AFFO may differ from the methods of other trusts or other issuers and accordingly, may not be comparable to similar measures presented by other trusts or other issuers.

OVERVIEW

Finance Trust is an unincorporated investment trust. Finance Trust was established pursuant to a Plan of Arrangement (the "Plan of Arrangement") on October 1, 2008 as an open-ended limited purpose unit trust pursuant to its Declaration of Trust. Each issued and outstanding Finance Trust unit is "stapled" to a unit of H&R REIT on a one-for-one basis such that Finance Trust units and H&R REIT units trade together as stapled units ("Stapled Units"), and such Stapled Units are listed and posted for trading on the Toronto Stock Exchange ("TSX"). Apart from provisions necessary to achieve such stapling, each H&R REIT unit and Finance Trust unit retains its own separate identity and is separately listed (but not posted for trading) on the TSX (unless there is an event of uncoupling, in which case Finance Trust units will cease to be listed on the TSX). The Plan of Arrangement establishing Finance Trust included the following transactions:

- (a) H&R REIT established Finance Trust pursuant to the Finance Trust Declaration of Trust, and subscribed for 146,054,669 units at a subscription price of approximately \$132.5 million.
- (b) H&R REIT made a distribution to its unitholders, as a return of capital, consisting of one Finance Trust unit for each H&R REIT unit.
- (c) H&R REIT transferred certain intercompany loans receivable from H&R REIT (U.S.) Holdings Inc. ("U.S. Holdco"), a wholly owned U.S. subsidiary of H&R REIT, to Finance Trust in consideration for cash of approximately U.S. \$125 million.
- (d) Finance Trust transferred certain loans to a wholly owned U.S. subsidiary of H&R REIT in consideration for a note payable by such subsidiary in a principal amount of U.S. \$125 million (the "Subco Note"). Finance Trust then transferred the Subco Note to U.S. Holdco in consideration for notes payable in the aggregate principal amount of U.S. \$125 million (the "U.S. Holdco Notes").

Purpose of the Creation of Finance Trust

The primary purpose of Finance Trust is to be a flow-through vehicle to allow H&R REIT to indirectly access the capital markets in a tax-efficient manner by indirectly borrowing money from H&R REIT's unitholders. Finance Trust's primary activity will be to hold debt issued by U.S. Holdco. Subject to cash flow requirements, Finance Trust intends to distribute to its unitholders, who are also unitholders of H&R REIT, all of its cash flow, consisting primarily of interest paid by U.S. Holdco, less administrative and other expenses and amounts to satisfy liabilities.

Mechanics of "Stapling" the Units of Finance Trust and H&R REIT

Pursuant to the provisions of the Declarations of Trust for Finance Trust and H&R REIT, at all times each H&R REIT unit must be "stapled" to a Finance Trust unit (and each Finance Trust unit must be "stapled" to a H&R REIT unit) unless there is an "event of uncoupling" (as described below). As part of the Plan of Arrangement, as described in H&R REIT's information circular dated August 20, 2008, H&R REIT and Finance Trust entered into a support agreement (the "Support Agreement") which provided, among other things, for the co-ordination of the declaration and payment of all distributions so as to provide for simultaneous record dates and payment dates; for co-ordination so as to permit H&R REIT to perform its obligations pursuant to H&R REIT's Declaration of Trust, Unit Option Plan, Distribution Reinvestment Plan and Unit Purchase Plan ("DRIP") and Unitholder Rights Plan; for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable and permit H&R REIT to perform its obligations arising under any security issued by H&R REIT (including securities convertible, exercisable or exchangeable into Stapled Units); for Finance Trust to take all such actions and do all such things as are necessary or desirable to enable H&R REIT to perform its obligations or exercise its rights under its convertible debentures; and for Finance Trust to take all such actions and do all such things

as are necessary or desirable to issue Finance Trust units simultaneously (or as close to simultaneously as possible) with the issue of H&R REIT units and to otherwise ensure at all times that each holder of a particular number of H&R REIT units holds an equal number of Finance Trust units, including participating in and cooperating with any public or private distribution of Stapled Units by, among other things, executing prospectuses or other offering documents.

In the event that H&R REIT issues additional H&R REIT units, pursuant to the Support Agreement, H&R REIT and Finance Trust will coordinate so as to ensure that each subscriber receives both H&R REIT units and Finance Trust units, which shall trade together as Stapled Units. Prior to such event, H&R REIT shall provide notice to Finance Trust to cause Finance Trust to issue and deliver the requisite number of Finance Trust units to be received by and issued to, or to the order of, each subscriber as H&R REIT directs. In consideration of the issuance and delivery of each such Finance Trust unit, H&R REIT (solely as agent for and on behalf of the purchaser) or the purchaser, as the case may be, shall pay (or arrange for the payment of) a purchase price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of each such Finance Trust unit at the time of such issuance. The remainder of the subscription price for Stapled Units shall be allocated to the issuance of H&R REIT units by H&R REIT. The proceeds received by Finance Trust from any such issuance shall be invested in additional notes of the same series as the U.S. Holdco Notes or distributed to unitholders of Finance Trust.

An event of uncoupling ("Event of Uncoupling") shall occur only: (a) in the event that unitholders of H&R REIT vote in favour of the uncoupling of units of Finance Trust and units of H&R REIT such that the two securities will trade separately; or (b) at the sole discretion of the trustees, but only in the event of the bankruptcy, insolvency, winding-up or reorganization (under an applicable law relating to insolvency) of H&R REIT or U.S. Holdco or the taking of corporate action by H&R REIT or U.S. Holdco in furtherance of any such action or the admitting in writing by H&R REIT or U.S. Holdco of its inability to pay its debts generally as they become due.

Investment Restrictions

Under Finance Trust's Declaration of Trust, the assets of Finance Trust may be invested only in:

- (a) U.S. Holdco Notes; and
- (b) temporary investments in cash, term deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, or money market instruments (including banker's acceptances) of, or guaranteed by, a Schedule 1 Canadian bank ("Cash Equivalents"), but only if each of the following conditions are satisfied: (a) if the Cash Equivalents have a maturity date, the trustees hold them until maturity; (b) the Cash Equivalents are required to fund expenses of Finance Trust, a redemption of units, or distributions to unitholders, in each case before the next distribution date; and (c) the purpose of holding the Cash Equivalents is to prevent funds from being non-productive, and not to take advantage of market fluctuations.

The Finance Trust Declaration of Trust provides that Finance Trust shall not make any investment, take any action or omit to take any action which would result in the units of Finance Trust not being considered units of a "mutual fund trust" for purposes of the Income Tax Act (Canada) or that would disqualify Finance Trust as a "fixed investment trust" under the Internal Revenue Code of 1986 as amended (the "Code") and the applicable regulations. In order to qualify as a "fixed investment trust" under the Code, Finance Trust generally may not acquire assets other than the U.S. Holdco Notes or certain investments in cash or cash equivalents.

2009 Reorganization

On November 30, 2009, Finance Trust and H&R REIT completed a reorganization (the "2009 Reorganization") as part of the steps required to enable H&R REIT to qualify for the REIT exemption under the SIFT Rules contained in the Income Tax Act (Canada), as described under "Canadian Federal Income Tax Considerations - SIFT Rules". The 2009 Reorganization involved, among other things, a redemption of 5,437,565 Stapled Units of H&R REIT and Finance Trust of the 5,437,565 Stapled Units held by H&R Portfolio Limited Partnership (wholly owned by H&R REIT). In accordance with the Declaration of Trust for Finance Trust, it delivered U.S. Holdco Notes in the amount of USD \$4.6 million in payment of the redemption price for the Finance Trust Units redeemed, thereby lowering the balance of the notes receivable by the same principal amount. For further information on the 2009 reorganization, please refer to H&R REIT's MD&A.

SECTION II

RESULTS OF OPERATIONS

	Three months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Change	Twelve months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Change
(in thousands of dollars except per unit amounts)						
Operating revenue:						
Interest income	\$3,610	\$4,294	(16)	\$15,046	\$4,294	250
Expenses:						
Trust expenses	(91)	(284)	(68)	(397)	(284)	40
Net (loss) gain on foreign exchange	(2,125)	20,251	(110)	(20,509)	20,251	(201)
Loss on option derivatives	(3,848)	(3,140)	(23)	(2,951)	(3,140)	(6)
Net (loss) earnings and comprehensive (loss) income	(\$2,454)	\$21,121	(112)	(\$8,811)	\$21,121	(142)
Basic and diluted net (loss) earnings per unit	(\$0.02)	\$0.14	(114)	(\$0.06)	\$0.14	(143)

<i>Interest Income, net:</i>	Three months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Change	Twelve months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Change
(in thousands of dollars)						
Interest income from notes receivable and cash	\$3,815	\$4,488	(15)	\$15,887	\$4,488	254
Amortization of notes receivable accounted for under the effective interest rate method	(205)	(194)	6	(841)	(194)	334
Interest income	\$3,610	\$4,294	(16)	\$15,046	\$4,294	250

Interest income earned from U.S. Holdco is recorded on an accrual basis. Interest received is based on the notes receivable bearing interest payable monthly at a floating interest rate adjusted monthly equal to the then prevailing ten year U.S. treasury note rate plus 8% per annum. For the twelve months ended December 31, 2009, the weighted average interest rate was 11.18%. For the period from October 1, 2008 to December 31, 2008, the weighted average interest rate was 11.53%. In addition, Finance Trust earns interest on cash and cash equivalents in its bank account. Included in the above amount is a reduction to interest income of \$0.2 million for the three months (Q4 2008 - \$0.2 million) and \$0.8 million for the twelve months ended December 31, 2009 (2008 - \$0.2 million) due to using the effective interest rate method as a result of bifurcating the options on the notes receivable.

Loss (gain) on Foreign Exchange

The notes receivable from U.S. Holdco are denominated in U.S. dollars. Since Finance Trust's financial statements are denominated in Canadian dollars, the difference between the Canadian dollar equivalent principal amount of the notes receivable on January 1, 2009 and December 31, 2009 is recorded as a gain or loss on foreign exchange. For the three months ended December 31, 2009, the loss on foreign exchange amounted to \$2.1 million. For the twelve months ended December 31, 2009, this loss was \$20.5 million as compared to a gain of \$20.3 million for the 2008 period. Any foreign exchange gain or loss on the notes receivable will only become realized upon repayment or other disposition of the notes receivable. Foreign exchange gains or losses may also be realized

on the conversion of U.S. dollars to Canadian dollars for purposes of payment of distributions, payment of operating expenses or other Canadian dollar requirements of Finance Trust.

Loss on Option Derivatives

The fair value of the embedded prepayment and extension options in the notes receivable was determined using available market information and appropriate valuation techniques. The fair value of such options as at December 31, 2008 was \$10.9 million which increased to \$12.1 million as at December 31, 2009. The change in fair value is due to a loss on derivative options of \$3.0 million and a foreign exchange gain of \$1.8 million which is recorded in the net loss on foreign exchange for the twelve months ended December 31, 2009. For the period from inception on October 1, 2008 to December 31, 2008, the change in fair value was \$3.1 million.

DISTRIBUTABLE CASH AND ADJUSTED FUNDS FROM OPERATIONS

Pursuant to the Declaration of Trust, unitholders have a right to receive all of the distributable cash (“DC”) of Finance Trust, as defined in the Declaration of Trust. DC means, subject to certain exceptions, all amounts received by Finance Trust less certain costs, expenses or other amounts payable by Finance Trust, and less any amounts which, in the opinion of the trustees, may reasonably be considered to be necessary to provide for the payment of any costs or expenditures that have been or will be incurred in the activities and operations of Finance Trust and to provide for payment of any tax liability of Finance Trust. DC is expected to fluctuate due to fluctuations in the prevailing ten-year U.S. treasury note rate. Therefore, Finance Trust expects distributions paid to fluctuate in future years.

Calculation of Distributable Cash and Adjusted Funds from Operations

	Three months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Change	Twelve months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Change
<i>(in thousands of dollars)</i>			%			%
Cash interest income received	\$3,815	\$4,488	(15)	\$15,887	\$4,488	254
Trust expenses	(91)	(284)	(68)	(397)	(284)	40
Distributable Cash/Adjusted Funds from Operations	\$3,724	\$4,204	(11)	\$15,490	\$4,204	268

Management considers Distributable Cash (“DC”) and Adjusted Funds from Operations (“AFFO”) to be indicative measures in evaluating Finance Trust’s performance. Given the limited operations of Finance Trust, management determines DC and AFFO in effectively the same manner. However, DC and AFFO should not be construed as an alternative to net earnings or cash provided by operations determined in accordance with GAAP as an indicator of Finance Trust’s performance. (See also “Non-GAAP Financial Measure”).

H&R FINANCE TRUST- MD&A – December 31, 2009

<i>Reconciliation of Distributable Cash and Adjusted Funds from Operations to Net Loss</i>	Three months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Twelve months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008
<i>(in thousands of dollars except unit and per unit amounts)</i>				
Net (loss) earnings	(\$2,454)	\$21,121	(\$8,811)	\$21,121
Net loss (gain) on foreign exchange	2,125	(20,251)	20,509	(20,251)
Loss on option derivatives	3,848	3,140	2,951	3,140
Amortization of notes receivable accounted for under the effective interest rate method	205	194	841	194
Distributable Cash/Adjusted Funds from Operations	\$3,724	\$4,204	\$15,490	\$4,204
Total distributions paid	\$3,807	\$5,480	\$15,586	\$5,480
Weighted and diluted average number of units (in thousands of units)	146,669	146,502	147,484	146,502
Basic and diluted DC/AFFO per unit	\$0.025	\$0.029	\$0.105	\$0.029
Distributions paid per unit	\$0.026	\$0.037	\$0.106	\$0.037
Total distributions paid as a % of DC/AFFO	102.2%	130.4%	100.6%	130.4%

The tax deferred portion of distributions for 2009 for Finance Trust's distribution was 5% (2008 - 23%). This deferral will vary in any given year due to foreign exchange and the variability of the ten year U.S. treasury note rate.

The following is a reconciliation of Finance Trust's cash provided by operations to DC and AFFO.

<i>(in thousands of dollars)</i>	Three months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008	Twelve months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008
Distributable Cash/Adjusted Funds from Operations	\$3,724	\$4,204	\$15,490	\$4,204
Realized (loss) gain on foreign exchange	-	251	(22)	251
Accounts payable and accrued liabilities	56	198	(14)	198
Cash provided by operations	\$3,780	\$4,653	\$15,454	\$4,653

Note: The above-noted adjustments made in order to reconcile DC and AFFO to cash provided by operations of Finance Trust are discretionary in nature and the basis for each such adjustment is discussed below.

Finance Trust's definition of DC and AFFO does not adjust for the change in accounts payable and accrued liabilities, which represents balance sheet changes only and therefore is subtracted from or added to, as the case may be, DC/AFFO in order to reconcile to cash provided by operations. Realized loss or gain on foreign exchange is included in net earnings and is deducted or added to in calculating DC and AFFO. As a result, it is a reconciling item for cash provided by operations.

FINANCIAL CONDITION

Assets

Notes Receivable

Finance Trust owns U.S. Holdco Notes issued by U.S. Holdco. The U.S. Holdco Notes bear interest payable monthly at a floating rate adjusted monthly equal to the then-prevailing 10-year U.S. treasury note rate plus 8% per annum. The weighted average interest rate for the period from January 1, 2009 to December 31, 2009 was 11.18% (period from October 1, 2008 to December 31, 2008 - 11.53%) and the interest rate at December 31, 2009 was 11.85% (December 31, 2008 - 10.25%). The U.S. Holdco Notes are due on October 1, 2018. U.S. Holdco has a one-time right to extend the term of the notes for a further 10 years at the then-prevailing 10-year U.S. treasury note rate plus 8% per annum provided that U.S. Holdco is not in default and has met certain financial ratios.

Except in limited circumstances, U.S. Holdco does not have the right to repay the U.S. Holdco Notes prior to October 1, 2011. Following October 1, 2011, subject to certain conditions, U.S. Holdco has the right to repay either in whole or in part the notes outstanding before the maturity date. There is a prepayment penalty for amounts prepaid over a certain threshold between October 1, 2011 and October 1, 2013.

To permit Finance Trust to fund a redemption of Finance Trust units tendered for redemption from time to time, Finance Trust has the right to require U.S. Holdco to repay for cash all or any part of the U.S. Holdco Notes for an amount equal to the redemption amount, provided that in any one calendar month, U.S. Holdco will not be required to repay notes having an aggregate purchase price in excess of \$0.1 million (subject to adjustment in certain circumstances or waiver by the trustees).

The US Holdco Notes are subordinate to any senior indebtedness owed by U.S. Holdco. If there is a default or an event of default pursuant to the terms of senior indebtedness of U.S. Holdco, subject to certain additional conditions, U.S. Holdco shall not be required to make any payment on the U.S. Holdco Notes until such time as such senior indebtedness has been repaid in full, or until such default or event of default shall have been cured or waived or shall have ceased to exist.

Finance Trust has fair valued the embedded prepayment and extension option liabilities using available market information and appropriate valuation techniques. The fair value of such options as at December 31, 2008 including the impact of foreign exchange was \$10.9 million which increased to \$12.1 million as at December 31, 2009. The change in fair value of \$3.0 million has been recorded as a loss in net earnings. The additional \$1.8 million recognized as a loss is due to the foreign exchange impact for the twelve months ended December 31, 2009. As a result of bifurcating these options from the U.S. Holdco Notes, a basis adjustment has been made which will be amortized over the term of the U.S. Holdco Notes receivable using the effective interest rate method. The adjustment was \$0.8 million for the twelve months ended December 31, 2009 and has been recorded as a reduction to interest income (2008 - \$0.2 million).

Equity

Unitholders' Equity

Unitholders' equity decreased to \$122.0 million between January 1, 2009 and December 31, 2009. The decrease is due to the transfer of U.S. Holdco notes and the redemption of units as described in the overview, the net loss for the year and the distributions paid to unitholders of Finance Trust, which were partially offset by the issue of Finance Trust units under H&R REIT's DRIP program and unit option plan pursuant to the Support Agreement.

	Number of Units	Dollar Value
For the units issued, the breakdown is as follows:		
Opening balance, January 1, 2009	147,032,851	\$133.5 million
Issued as a result of Finance Trust complying with the terms of the Support Agreement with H&R REIT	2,229,976	2.0 million
Units redeemed as part of the 2009 Reorganization	(5,437,565)	(4.8) million
Closing balance, December 31, 2009	143,825,262	\$130.7 million

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

The cash provided by operations of \$15.5 million for the twelve months ended December 31, 2009 represents the primary source of funds to pay distributions to Unitholders totalling \$15.6 million for the twelve months ended December 31, 2009.

Finance Trust's interest income is primarily earned on the U.S. Holdco Notes. The U.S. Holdco Notes are unsecured. The interest on the U.S. Holdco Notes is paid from cash flow generated from the properties that U.S. Holdco owns in the United States. H&R REIT has not guaranteed the U.S. Holdco Notes. Therefore, Finance Trust is subject to the risk that U.S. Holdco will not be able to satisfy its obligations pursuant to the U.S. Holdco Notes. While Finance Trust does not have any ability to determine the tenants of U.S. Holdco, Finance Trust understands that many of them are investment grade. In addition, Finance Trust understands that all of the mortgages on the properties owned by U.S. Holdco are non-recourse. As U.S. Holdco is not dependent upon H&R REIT for any funds, H&R REIT's significant development commitments will have no effect upon U.S. Holdco's ability to pay interest to Finance Trust.

In accordance with National Policy 41-201, Finance Trust is required to provide the following additional disclosure relating to cash distributions.

(in thousands of dollars)	Three months ended December 31, 2009	Twelve months ended December 31, 2009	Period from October 1, 2008 to December 31, 2008
Cash provided by operating activities	\$3,780	\$15,454	\$4,653
Net (loss) earnings	(2,454)	(8,811)	21,121
Actual cash distributions paid or payable relating to the period	3,807	15,586	5,480
Shortfall of cash provided by operating activities over cash distributions paid	(27)	(132)	(827)
(Shortfall) excess of net earnings (loss) over cash distributions paid	(6,261)	(24,397)	15,641

There was a shortfall of net loss compared to cash distributions which is primarily due to non-cash factors, in particular the unrealized loss on foreign exchange on the notes receivable, which was partially offset by the unrealized gain on the derivative option. It is management's intention to distribute DC, as required by the Declaration of Trust.

Cash distributions exceeded cash provided by operating activities for the twelve months ended December 31, 2009. The shortfall was not significant.

SECTION III**SUMMARY OF QUARTERLY RESULTS**

(in thousands of dollars except per unit amounts)	Three months ended December 31, 2009	Three months ended September 30, 2009	Three months ended June 30, 2009	Three months ended March 31, 2009	Period from October 1, 2008 to December 31, 2008
Interest income	\$3,610	\$3,751	\$3,821	\$3,864	\$4,294
Net earnings (loss)	(2,454)	(3,262)	(14,729)	11,634	21,121
Net earnings (loss) per unit					
basic and diluted	(0.02)	(0.02)	(0.10)	0.08	0.14

Net earnings vary based on the change in foreign exchange rates, the gain or loss on foreign exchange, the gain or loss on derivative options and the interest rate for the interest received.

SECTION IV**CRITICAL ACCOUNTING ESTIMATES**

The preparation of Finance Trust's financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Estimates are used when accounting for such items as the embedded prepayment and extension options and notes receivable. Finance Trust's financial statements have been prepared in accordance with Canadian GAAP.

Management believes the policies which are most subject to estimation and judgements are outlined below. For a detailed description of these and other accounting policies refer to note 1 of the December 31, 2009 audited financial statements of Finance Trust.

Impairment of Notes Receivable

Finance Trust evaluates the fair value of its notes receivable to determine whether any impairment provisions are required. Notes receivable are classified as impaired when, in the opinion of management, there is a reasonable doubt as to the timely collection of principal, interest and the underlying security. The carrying amount of a note receivable classified as impaired is reduced to its estimated realizable amount. Interest income on the note receivable classified as impaired is not accrued and any interest income that is accrued and unpaid is reversed against interest income. No impairments of notes receivable were recorded during 2009 or 2008.

CHANGES TO SIGNIFICANT ACCOUNTING POLICIES FOR 2009

Effective January 1, 2009, Finance Trust adopted the new recommendation of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets on a retroactive basis by adjusting the prior year. This new section replaces Section 3062, Goodwill and Other Intangible Assets, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new section has no impact on the financial statements.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is to be applied retrospectively without restatement of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009. Finance Trust adopted this recommendation in its fair value determinations effective January 1, 2009. The adoption of this guideline did not have any material effect on Finance Trust's results, financial position or cash flows.

Effective January 1, 2009, Finance Trust prospectively adopted the CICA amendments to section 3855, Financial Instruments - Recognition and Measurement. Amendments to this section requires an assessment to determine whether an embedded derivative is

required to be separated from the host contract and accounted for as a derivative on reclassification of a financial asset out of held-for-trading category. In addition, the amendment prohibits the reclassification of a financial asset out of the held-for trading category when the fair value of the embedded derivative in a combined contract cannot be reasonably measured. The adoption of the amendments to this standard did not have an impact on Finance Trust's financial statements.

Effective January 1, 2009, Finance Trust adopted the CICA amendments to section 3855, Financial Instruments - Recognition and Measurement, in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and, provided that certain conditions have been met, requires or permits reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. The amendments also change the impairment model for held-to-maturity investment to the incurred credit loss model. These amendments are effective for Finance Trust's annual financial statements relating to its fiscal year beginning on January 1, 2010; however, Finance Trust has voluntarily elected to apply these amendments to its December 31, 2009 financial statements as permitted by the transitional provisions of the amendments. The adoption of the amendments to this standard did not have an impact on Finance Trust's financial statements.

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for Finance Trust on December 31, 2009. The adoption of these amendments did not have a significant impact on Finance Trust's financial statements.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board has confirmed that the use of IFRS will replace Canadian Accounting Standards effective January 1, 2011. Finance Trust is in the middle stages of developing a conversion plan to transition financial reporting to IFRS. Accordingly, at this time, Finance Trust cannot quantify the impact that the adoption of IFRS will have on the classification or valuation of Finance Trust's financial statements.

The Canadian Securities Administrators ("CSA") issued Staff Notice 52-321, *Early Adoption of International Financial Reporting Standards*, which provides issuers with the option to early adopt IFRS effective January 1, 2009. Finance Trust did not early adopt these standards on January 1, 2009.

Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: first, as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and secondly, standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The IASB currently has projects underway that are expected to result in new pronouncements that continue to evolve.

Implementing IFRS will have an impact on accounting, financial reporting and supporting IT systems and processes. It may also have an impact on contractual commitments involving GAAP-based clauses (including debt covenants), and performance metrics. Management expects the only impact will be enhanced note disclosure surrounding the fair value of financial assets and financial liabilities.

Initial Assessment Phase

This phase includes the identification of significant differences between existing Canadian GAAP and IFRS-IASB at a high level as relevant to Finance Trust. Based upon the current state of IFRS-IASB, this phase identified a modest number of topics that may possibly impact Finance Trust's financial results and/or the necessary effort to make the transition to IFRS-IASB. Targeted training and communication activities, leveraging both internal and external resources, are occurring during this phase. Finance Trust has completed its initial assessment phase and has determined that the only impact will be enhanced note disclosure surrounding the fair value of financial assets and financial liabilities.

Detailed Assessment Phase

Building upon the assessment performed in the Initial Assessment Phase, this phase included:

- identification, evaluation and selection of accounting policies necessary for Finance Trust to change over to IFRS-IASB;
- identification of the business impacts resulting from the identified accounting differences. Business impacts that were considered in Finance Trust's project plan were: control processes, information technology, unitholders, regulatory matters and others as identified during this phase;
- assessment of IFRS 1 elections. This aspect of the project plan followed the detailed assessment of the financial statement items and will be revisited periodically throughout the project;
- an initial training analysis and information systems impact analysis are also components of this phase, and are finalizing being documented.

The detailed assessment phase was completed by the end of 2009.

Design Phase

The Design Phase will integrate the recommendations from the Detailed Assessment Phase into our underlying financial systems and processes that are necessary for us to change over to IFRS-IASB. In addition, we will have designed business process changes and developed detailed training programs. The Design Phase is expected to conclude during Q2 2010.

Testing & Implementation Phase

During 2010, we will be testing our IFRS-IASB systems, processes, financial statements, notes, policies, internal controls and internal reporting throughout the period in preparation of our conversion date of January 1, 2011.

Status of Convergence Plan

Currently, impact assessment is underway and progressing according to plan. Finance Trust's financial performance and financial position as disclosed in the current Canadian GAAP financial statements should not be significantly different when presented in accordance with IFRS. One expected difference will be enhanced note disclosure regarding the fair value determination of financial assets and financial liabilities. A second potential issue which may arise is that under Canadian GAAP, the outstanding units of Finance Trust are presented as equity in the balance sheet. As IFRS is currently drafted and generally interpreted by the Canadian accounting profession, Finance Trust units may be regarded under IFRS as a liability rather than equity. This interpretation is influenced by section 9 of the Declaration of Trust which indicates that unitholders will have a right to receive all of the distributable cash of the Trust. Under IFRS, a liability arises where "financial instruments" contain a "contractual obligation to deliver cash or another financial asset to another equity".

A Finance Trust unit is a financial instrument for both Canadian GAAP and IFRS purposes. A mandatory requirement to distribute distributable cash may constitute a "contractual requirement to deliver cash", resulting in Finance Trust units being considered as a liability for purposes of IFRS. Should this interpretation be correct and applicable to Finance Trust, the financial statements of Finance Trust would be materially affected upon adoption of IFRS. Finance Trust will attempt to deal with this issue prior to IFRS implementation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the design of our internal control over financial reporting during the three months ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The financial statements and MD&A were reviewed by the audit committee and the Board of Trustees, which approved them prior to their publication.

Finance Trust's management, being the CEO and CFO, does not expect that Finance Trust's controls and procedures will prevent or detect all misstatements due to error or fraud. Due to the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all control issues and instances of fraud or error, if any, within Finance Trust have been detected. Finance Trust is continually evolving and enhancing its systems of controls and procedures.

Finance Trust has also established adequate internal control over financial reporting to provide reasonable assurance regarding the liability of Finance Trust's financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP. Finance Trust's CEO and CFO assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of Finance Trust's internal control over financial reporting (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*) as at December 31, 2009. Based on this assessment, it was determined that Finance Trust's internal controls over financial reporting were appropriately designed and is operating effectively as at December 31, 2009.

SECTION V

RISKS AND UNCERTAINTIES

The following are the substantive risks of Finance Trust. For a complete listing, please refer to H&R REIT's Annual Information Form.

Creditworthiness of H&R REIT (U.S.) Holdings Inc.

The U.S. Holdco Notes constitute substantially all of Finance Trust's assets. Finance Trust is exposed to credit risk from the possibility that U.S. Holdco may default on its financial obligations. This is the most significant measurable risk faced by Finance Trust.

Pursuant to the terms of the U.S. Holdco Notes, U.S. Holdco's aggregate indebtedness at any time shall not exceed U.S.D \$150 million; unless (a) such additional indebtedness is funded by Finance Trust; and (b) after giving effect to such additional indebtedness, U.S. Holdco would have a consolidated interest coverage ratio of at least 1.3:1.0 for the immediately preceding calendar year.

The terms of the U.S. Holdco Notes also provide that, subject to the approval of the holders of 66 $\frac{2}{3}$ % of the principal amount of U.S. Holdco Notes, U.S. Holdco will not (a) pay any amounts to its stockholders if an event of default or pending event of default, each as defined for purposes of the U.S. Holdco Notes, has occurred and is continuing or would occur as a result of such payment, and (b) enter into any material transaction with any affiliate, as defined for purposes of the U.S. Holdco Notes, except in the ordinary course of business and on arm's length terms provided that this covenant does not affect transactions with wholly owned subsidiaries of U.S. Holdco or equity contributions by U.S. Holdco, other than certain equity contributions made on a non pro-rata basis.

The U.S. Holdco Notes are subordinate to any senior indebtedness owed by U.S. Holdco. If there is a default or an event of default pursuant to the terms of senior indebtedness of U.S. Holdco, subject to certain additional conditions, U.S. Holdco shall not be required to make any payment on the U.S. Holdco Notes until such time as such senior indebtedness has been repaid in full, or until such default or event of default shall have been cured or waived or shall have ceased to exist.

U.S. Holdco also covenants that it will not pledge material property or assets in favour of any other person, or permit or cause any lien upon a material portion of its property or assets, although this covenant does not apply to actions taken by U.S. Holdco's subsidiaries.

If U.S. Holdco sells property or assets with a net book value greater than 5% of the total net book value of all income properties of U.S. Holdco (on a consolidated basis), then it will have to determine whether its interest coverage ratio (as determined for such purpose) will be less than 1.3:1.0. If its interest coverage ratio is determined to be less than 1.3:1.0, U.S. Holdco must use all or a portion of the proceeds of such sale to redeem U.S. Holdco Notes or redeploy the proceeds in a manner that such ratio will exceed 1.3:1.0.

Unit Prices

Publicly traded trust units will not necessarily trade at values determined solely by reference to the underlying value of trust assets. The units of Finance Trust do not trade independently, but rather are stapled to units of H&R REIT, which trade together as "Stapled Units". Accordingly, the Stapled Units may trade at a premium or a discount to the underlying value of the assets of H&R REIT and

Finance Trust. Investors in Stapled Units will be subject to all of the risks of an investment in units of H&R REIT. Holders of Stapled Units should consult the Management's Discussion and Analysis of H&R REIT and specifically the risk factors therein. See also "Forward-Looking Disclaimer".

One of the factors that may influence the market price of the Stapled Units is the annual yield on the Stapled Units. Accordingly, an increase in market interest rates may lead investors in Stapled Units to demand a higher annual yield which could adversely affect the market price of Stapled Units. In addition, the market price for Stapled Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of H&R REIT and/or Finance Trust.

Availability of Cash for Distributions

Pursuant to its Declaration of Trust, Finance Trust is required to distribute all of its DC to its unitholders. The actual amount of DC available for distribution will depend on numerous factors including fluctuations in the ten year U.S. treasury note rate and exchange rates, its working capital requirements, its expenses and amounts needed to satisfy its liabilities. In addition, the market value of the Stapled Units may decline significantly if H&R REIT suspends or reduces distributions.

Interest Rate Risk

Finance Trust is exposed to interest rate risk on its notes receivable due to the volatility of variable interest rates. The interest rate on the U.S. Holdco Notes is adjusted monthly and is equal to the then-prevailing ten-year U.S. treasury note rate plus 8% per annum. The floor interest rate of 8% mitigates the effect of a drop in short-term market interest rates while the floating component linked to the ten-year U.S. treasury rate allows for increased earnings when the short-term market interest rate increases.

Tax Risk

On October 31, 2006, the Minister of Finance (Canada) announced significant changes to the tax treatment of publicly traded trusts and partnerships. Legislation amending the Income Tax Act (Canada) (the "Tax Act") to implement the new provisions (referred to herein as the "SIFT Rules") became law on June 22, 2007. The SIFT Rules effectively tax certain income of a publicly traded trust that is distributed to its investors on the same basis as would have applied had the income been earned through a taxable corporation and distributed by way of dividend to its shareholders.

The new tax regime applies only to "SIFT trusts" and their investors.

A trust resident in Canada is generally defined as a SIFT trust if (a) investments in the trust are listed or traded on a stock exchange or other public market, and (b) the trust holds one or more "non portfolio properties".

Pursuant to the terms of the Finance Trust Declaration of Trust, the only properties which Finance Trust is permitted to invest in are U.S. Holdco Notes, and certain cash and cash equivalents, none of which constitutes non-portfolio property for purposes of the Tax Act, provided Finance Trust does not at any time carry on a business in Canada. It follows that Finance Trust will not be a SIFT trust for purposes of the Tax Act and will not be subject to tax under the SIFT Rules.

Tax Consequences to U.S. Holders

Finance Trust qualifies as an investment trust that is classified as a grantor trust for U.S. federal income tax purposes under Treasury Regulation section 301.7701-4(c) (a "Fixed Investment Trust") and section 671 of the Code. In general, an investment trust will qualify as a Fixed Investment Trust if: (i) the trust has a single class of ownership interests, representing undivided beneficial interests in the assets of the trust; and (ii) there is no power under the trust agreement to vary the investment of the holders. If Finance Trust is a Fixed Investment Trust, then it will generally be disregarded for U.S. federal income tax purposes, with the result that the holders of Finance Trust units will be treated as owning directly their *pro rata* shares of all of the Finance Trust assets (i.e. primarily the U.S. Holdco Notes). Moreover, all payments made on the U.S. Holdco Notes will be treated as payments made directly to the holders of the Finance Trust units in proportion to their interest in Finance Trust.

Provided that Finance Trust qualifies as a Fixed Investment Trust and the U.S. Holdco Notes are respected as debt for U.S. federal income tax purposes, payments of principal and interest on the U.S. Holdco Notes that are attributable to U.S. holders will be treated as payments directly to the U.S. holders. Interest on the U.S. Holdco Notes will generally be taxable to U.S. holders as ordinary

income at the time it is paid or accrued and will be subject to U.S. federal taxation at a maximum marginal rate of 35%. If the U.S. Holdco Notes were treated as equity rather than debt for U.S. federal income tax purposes, then the stated interest on the U.S. Holdco Notes would be treated as a distribution with respect to stock.

Additionally, there can be no assurance that the Internal Revenue Service will not challenge the determination that the interest rate on the U.S. Holdco Notes represents an arm's length rate.

Dilution

The number of units that Finance Trust is authorized to issue is unlimited. The trustees have the discretion to issue additional units in certain circumstances, including to satisfy Finance Trust's obligations pursuant to the Support Agreement. When units are issued by Finance Trust, they are issued at their fair market value at the time of such issuance (as determined by Finance Trust in consultation with H&R REIT), so no dilution should result from any issuance of units.

Currency Risk

Finance Trust is exposed to foreign exchange fluctuations as a result of the notes receivable being denominated in United States dollars.

Liquidity risk

Managements' strategy to managing liquidity risk is to ensure, to the extent possible, that Finance Trust will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Finance Trust does not have significant contractual liabilities. The interest earned on the U.S. Holdco Notes is sufficient to meet its current level of liabilities.

Finance Trust has agreed to an interest rate on the notes receivable at the 10-year U.S. treasury note rate plus 8% per annum, payable monthly, which allows for a predictable annual cash flow of at least 8% of the principal amount of U.S. Holdco Notes.

If an Event of Uncoupling occurs the units of Finance Trust will no longer be stapled to units of the REIT and the units of the Finance Trust will likely cease to be listed on the Toronto Stock Exchange. In such event, there can be no assurance that a trading market for the units of Finance Trust will develop or, if one develops, that it will be maintained and it is not possible to predict how the units of Finance Trust will trade in the secondary market or whether such market will be liquid. The unitholders of Finance Trust are entitled to redeem their units for cash, but this is limited as described in note 4 of the financial statements.

Redemption Right

The unitholders have the right to require Finance Trust to redeem their units on demand. Provided that no Event of Uncoupling has occurred, unitholders who tender their Finance Trust units for redemption will also be required to tender for redemption corresponding units of H&R REIT in accordance with the provisions of the H&R REIT Declaration of Trust. Upon the tender of their Finance Trust units for redemption by Finance Trust, all of the unitholder's rights to and under such units are surrendered and the unitholder is entitled to receive, except as provided below, a price per unit payable in cash equal to the Canadian dollar equivalent of the outstanding principal amount of the U.S. Holdco Notes as of the redemption date, divided by the total number of units issued and outstanding immediately prior to the redemption date. In certain circumstances, including where such payment would cause Finance Trust's monthly cash redemption obligations to exceed \$0.1 million (subject to adjustment in certain circumstances or waiver by the trustees), the redemption price per unit to which a redeeming unitholder is entitled shall be the fair market value of the units being redeemed, as determined by the trustees, which shall be payable by way of delivery of U.S. Holdco Notes.

Unitholder Liability

Finance Trust's Declaration of Trust provides that unitholders will have no personal liability for actions of Finance Trust and no recourse will be available to the private property of any unitholder for satisfaction of any obligation or claims arising out of a contract or obligation of Finance Trust. The Declaration of Trust further provides that this lack of unitholder liability, where possible, must be provided for in certain written instruments signed by Finance Trust. In addition, legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide unitholders in those provinces with limited liability. However, there

remains a risk, which Finance Trust considers to be remote in the circumstances, that a unitholder could be held personally liable for the Finance Trust's obligations to the extent that claims are not satisfied out of Finance Trust's assets. It is intended that Finance Trust's affairs will be conducted to seek to minimize such risk wherever possible.

Commitments and Contingencies

As discussed in the Overview, each unit of Finance Trust is stapled to a unit of H&R REIT. As a result, outstanding securities of H&R REIT convertible, exercisable or exchangeable for Stapled Units result in a future commitment for Finance Trust to issue units. The following arrangements which are known as at December 31, 2009, may require Finance Trust to issue units:

2013 Convertible Debentures:

In June 2008, H&R REIT completed a public offering of \$115 million 6.65% convertible unsecured subordinated debentures due June 30, 2013 (the "2013 Convertible Debentures"). Each 2013 Convertible Debenture is convertible into freely tradeable Stapled Units at the holders' option at: (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by H&R REIT for redemption of the 2013 Convertible Debentures, at a conversion price of \$23.11 per Stapled Unit. Upon any conversion of a 2013 Convertible Debentures, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance.

2014 Convertible Debentures

In July 2009, H&R REIT completed a public offering of \$150 million 6.75% Series B convertible unsecured subordinated debentures due December 31, 2014 (the "2014 Convertible Debentures"). Each 2014 Convertible Debenture is convertible into freely tradeable Stapled Units at the holder's option at: (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by H&R REIT for redemption of the 2014 Convertible Debentures, at a conversion price of \$14.00 per Stapled Unit. Upon any conversion of a 2014 Convertible Debenture, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance.

2017 Convertible Debentures

In December 2009, H&R REIT completed a public offering of \$175 million 6.00% Series C convertible unsecured subordinated debentures due June 30, 2017 (the "2017 Convertible Debentures"). Each 2017 Convertible Debenture is convertible into freely tradeable Stapled Units at the holder's option at: (i) any time prior to the maturity date and (ii) the business day immediately preceding the date specified by H&R REIT for redemption of the 2017 Convertible Debentures, at a conversion price of \$19.00 per Stapled Unit. Upon any conversion of a 2017 Convertible Debenture, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of such Finance Trust units at the time of such issuance.

Unit option plan

There are 2,086,434 options outstanding under H&R REIT's Unit Option Plan as at December 31, 2009 which are exercisable into Stapled Units. Upon any exercise of such options, Finance Trust will be required to issue Finance Trust units for a subscription price equal to the fair market value of the Finance Trust units at the time of such issue. During the year ended December 31, 2009, 968,232 options were exercised (period from October 1, 2008 - December 31, 2008 - nil). Subsequent to December 31, 2009, a further 600,000 options were granted under H&R REIT's unit option plan to bring the total number of options outstanding to 2,686,434.

Short Form Base Shelf Prospectus

On May 11, 2009, H&R REIT and Finance Trust issued a base shelf prospectus allowing H&R REIT and Finance Trust to offer and issue the following securities: (i) unsecured debt securities; (ii) subscription receipts exchangeable for Stapled Units and/or other securities of H&R REIT and Finance Trust; (iii) warrants exercisable to acquire Stapled Units and/or other securities of H&R REIT and Finance Trust; and (iv) securities comprised of more than one of Stapled Units, debt securities, subscription receipts and/or warrants offered together as a unit, or any combination thereof having an offer price of up to \$500 million in aggregate (or the equivalent

thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that the short form base shelf prospectus (including any amendments) remains valid. On July 17, 2009, H&R REIT and Finance Trust filed Amendment No. 1 to the base shelf prospectus dated May 11, 2009, to provide that the securities that may be offered and issued thereunder include senior unsecured debt securities of the REIT. On January 18, 2010, H&R REIT and Finance Trust filed Amendment No. 2 to the base shelf prospectus dated May 11, 2009 to increase the aggregate offer price of securities that may be offered from time to time under the prospectus from \$500 million to \$1 billion (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be).

Equity Distribution Agreement

On June 5, 2009, H&R REIT and Finance Trust entered into an equity distribution agreement with Canaccord Capital Corporation who will act as agent for the issuance and sale of Stapled Units, over an approximate two year period, by way of "at-the-market distributions" over the Toronto Stock Exchange ("TSX"). The timing of any sale over such approximate two year period, and the number of Stapled Units actually sold during such period, are at the discretion of H&R REIT and Finance Trust. Sales of Stapled Units, if any, pursuant to the agreement may be made in transactions that are deemed to be "at-the-market distributions", as defined in National Instrument 44-102-Shelf Distributions, including sales made directly on the TSX or other existing trading markets for the Stapled Units. Pursuant to applicable securities laws, the market value of Stapled Units sold pursuant to the equity distribution agreement must not exceed 10% of the aggregate market value of outstanding Stapled Units, as determined as at the last trading day of the month before the month in which the first trade under the equity distribution agreement is made. The Stapled Units will be distributed at market prices prevailing at the time of sale of such Stapled Units (if any) and, as a result, prices may vary between purchasers and during the period of distribution. Finance Trust will use its portion of the net proceeds of any given distribution of Stapled Units for the limited purposes set out in its Declaration of Trust. At the time units are issued, Finance Trust will be entitled to a subscription price equal to the fair market value (as determined by Finance Trust in consultation with H&R REIT) of each such Finance Trust unit at the time of such issuance. As of December 31, 2009, no trades have yet been made pursuant to the equity distribution agreement.

OUTSTANDING UNIT DATA

The beneficial interests in Finance Trust are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders. As at February 25, 2010, there were 143,871,520 Stapled Units issued and outstanding.

SECTION VI

OUTLOOK

The interest earned on the notes receivable will fluctuate depending on the base rate of the ten-year U.S. treasury note and the exchange rate. Based on the current ten-year U.S. treasury note rate of 3.66%, and based on the exchange rates as at December 31, 2009. Finance Trust expects to earn interest of approximately \$16.3 million during 2010. It is expected that the majority of this interest will be distributed to unitholders.

ADDITIONAL INFORMATION

Additional information relating to Finance Trust and to H&R REIT is available on SEDAR at www.sedar.com, including Finance Trust's financial statements and the notes thereto, H&R REIT's financial statements and the notes thereto, and the combined financial statements and the notes thereto of H&R and Finance Trust, each for the period ended December 31, 2009.